WIDENING, TIGHTENING AND INTENSIFYING ECONOMIC AND OTHER SANCTIONS AGAINST SOUTH AFRICA

A BRIEF
TO THE RIGHT HONOURABLE MR. JOE CLARK,
THE SECRETARY OF STATE FOR EXTERNAL AFFAIRS

PRESENTED BY
THE TASKFORCE ON THE CHURCHES AND
CORPORATE RESPONSIBILITY

129 St. Clair Avenue West
Toronto, Ontario M4V 1N5

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RECOMMENDATIONS

The Taskforce on the Churches and Corporate Responsibility recommends that the Government of Canada:

I. ARMS EMBARGO

1. Revise the Export Controls Policy so that it states clearly the current government policy that military goods will not be exported to any end user in South Africa.

2. Revise the Export Controls Policy to prohibit the export to any end user in South Africa of all strategic (dual purpose) goods which might assist south Africa to fill its strategic and military needs.

3. Together with other countries seek an alternative location to South Africa in the region for the satellite-based rescue system.

4. Actively seek the establishment of a multilateral coordinating organization for the implementation of the arms embargo against South Africa.

5. By legislation or other means, prevent Canadian companies from assisting the South African government with its military and strategic requirments through consulting services, technology transfers, licenses or investments.

II. FINANCIAL SANCTIONS

6. Officially extend the ban on new lending activity and related policies regarding rescheduling to the subsidiaries of foreign banks.

7. Request that the Commonwealth Committee consider steps to rule out South Africa's increasing use of trade credits as a substitute for the loans now denied by Commonwealth and other countries' financial policies.

III. OIL EMBARGO

8. Adopt a broad definition of petroleum products in its implementation of the oil embargo rather than reclassify products so that they are no longer affected by the ban; and also

9. Assist the Commonwealth and the United Nations to develop an international list of products banned for export under the oil embargo.

10. Expand its definition of the oil embargo to include measures such as banning the export of equipment for exploration and development, and preventing Canadian companies from providing consulting services and technical assistance which assist South Africa to increase its energy self-sufficiency.

IV. TRADE SANCTIONS

11. Extend the existing import ban to include all remaining imports from South Africa.

12. Examine options for extending the ban on gold imports to include all newly mined South African gold, which would also include steps to prevent compensatory price increases.

13. Request that Canadian companies not participate with South African companies in the World Gold Council.

14. Discourage Canadian companies from participating in industry organizations which have South African membership (such as the International Coal Development Institute) where such participation could undermine the effective international implementation of sanctions agreed to by Canada.

15. Initiate discussions with the Front Line States and with other sulphur producing countries of a proposal to ban the export of sulphur to South Africa and to assist the Front Line States to reduce their dependency on South African fertilizer.

16. Clarify the mandate of the Canadian Association for the Private Sector in Southern Africa, with continuing CIDA support conditional on excluding direct or indirect promotion of trade with South Africa.

17. Seek, through the Commonwealth and bilaterally, to prevent the breaking of its own sanctions and the sanctions of other countries, through the adoption of such measures as certificates of origin; and at the very least,

18. Agree to monitor its trade and investment patterns in relation to the sanctions adopted by other countries, and provide them with information about possible evasions.

19. Reassess its voluntary approach to investment (or reinvestment) in South Africa in the light of four possible violations of its policy, and consider legislating a ban on new investment and the reinvestment of profits.

V. DISINVESTMENT

20. Legislate the disinvestment from South Africa of companies providing strategic support to the regime.

21. Amend the Canadian Income Tax Act, and if necessary enact other legislation, to the effect that Canadian individuals and companies will not receive tax credits for taxes paid or accrued to South Africa or Namibia.

VI. TOURISM AND PROPAGANDA

22. Support the Commonwealth Foreign Ministers Committee in taking the strongest possible action to counteract the South African government's propaganda campaign.

VII. LESOTHO HIGHLAND WATER PROJECT

23. Refuse the provision of "normal levels of service" to assist Canadian companies to participate in the Lesotho Highland Water Project, on the grounds that it is a project unofficially co-sponsored by the South African government and designed primarily to serve South Africa's interests.

VIII. NAMIBIA

24. Withdraw from the Contact Group of nations and return the issue of implementation of UN Resolution 435 for the independence of Namibia to the United Nations.

25. Support the implementation of Decree No. 1 of the United Nations Council for Namibia, which prohibits the exploitation of Namibian resources as long as Namibia remains illegally occupied by the South African government.

26. Legislate the disinvestment from Namibia of any Canadian corporations, including Rio Algom Ltd., involved in the exploitation of Namibian resources.

27. Refuse to permit the extension of the contract for the processing of Namibian uranium by Eldorado Nuclear beyond the original completion date of 1988.

I. ENFORCEMENT OF THE ARMS EMBARGO

1. Exports of military goods

Canada's Export Controls Policy of September 10, 1986 states that military and strategic goods are not exported to military end users and government departments and agencies (emphasis ours). We are pleased to have the verbal reassurance of External Affairs officials that Canada does not permit the sale of military goods to any end user in South Africa. The Export Controls Policy should be revised accordingly.

We recommend that the Government of Canada:

Revise the Export Controls Policy so that it states clearly the current government policy that military goods will not be exported to any end user in South Africa.

2. Exports of strategic (dual purpose) goods

The Export Controls Policy provides that export permit applications will "generally" be refused for the export of controlled "sensitive" (dual purpose or strategic) goods to the South African government and its agencies. It states that applications for export of controlled goods to South African private customers will be reviewed on an individual basis, and that the customer is required to state that the goods will not be used for military purposes or by the government.

We fail to understand why the policy regarding the export of strategic goods to South Africa is not as stringent as the policy regarding exports to Warsaw Pact countries. The Export Controls Policy states that Warsaw Pact countries are "denied all equipment and technology which would enhance their military potential". This policy is implemented by banning not only military goods, but also all strategic goods which in terms of their performance characteristics, would enhance the country's military potential. End-use certificates play no role - strategic goods are denied to all end users.

We question the assurances of the Export Controls Division that in the case of South Africa it is able to determine through "intelligence" that the goods exported will not be diverted, directly or indirectly, to military or police use.

Because of the secrecy of government decisions about military exports we rely on "leaks" for specific evidence that our concern is well founded. Recently a decision was made to export germanium crystals, used in fibre optics/communications applications, to a South African university. Fibre optics cables are extremely important to South Africa's military communications strategy. Yet External Affairs officials defended this decision on the grounds that previous exports of germanium crystals to the same university were used for "civilian" research on fibre optics. We query how it was determined that this research would not be useful to the military.

A second case, in which a decision has not yet been made, involves the export to South Africa of a ground terminal for a satellite-based global rescue system. A decision to place such a system in South African territory would open the door for South Africa to obtain vital technology and information with military and strategic applications.

External Affairs officials argue that there are humanitarian dimensions to be considered (the system speeds the response to air, sea or land disasters). They also argue that they have to listen to "other constituencies" in Canada who are concerned about commerce and jobs.

The intent to "tighten and widen" the application of sanctions, particularly in relation to South Africa's military capacity, should not be weakened by a qualification relating to Canada's economic interests.

We understand that CIDA is involved in the review of this export decision, and we hope that this means that Canada is taking an initiative, together with other sympathetic countries, to provide financial assistance so that the terminal can be placed in another country in the region.

We recommend that the Government of Canada:

Revise the Export Controls Policy to prohibit the export to <u>any</u> end user in South Africa of all strategic (dual purpose) goods which might assist South Africa to fill its strategic and military needs.

Together with other countries seek an alternative location to South Africa in the region for a terminal for the satellite based global rescue system.

3. <u>Implementation of the October 1986 Commonwealth Policy</u>

The members of the Commonwealth promised "an embargo on all military cooperation with South Africa." It appears that the focus of Canadian government policy implementation is much narrower - largely concerned with bilateral restrictions on the export of certain goods to South Africa.

a) Multilateral implementation

Implementation of the Commonwealth policy must include moving from unilateral to multilateral interpretation and implementation of the embargo. Experience so far has shown that South Africa is able to overcome the effect of the embargo by taking advantage of the loopholes caused by the varying ways in which countries have interpreted the embargo. There is no effective coordinating mechanism for South Africa similar to the Coordinating Committee on Multilateral Strategic Export Controls (COCOM) which provides for supervision of NATO allies exports'

to Warsaw Pact countries. Canada should take every possible initiative to support the establishment of an effective international coordinating mechanism for implementation of the South African arms embargo.

We recommend that the Government of Canada:

Actively seek the establishment of a multilateral coordinating organization for the implementation of the arms embargo against South Africa.

b) Assistance to South Africa's production of arms and related materials

An embargo on military cooperation, as recommended by the Commonwealth, would include not only a ban on the export of military and strategic goods, but also action to prevent Canadian enterprises and organizations from providing assistance to South Africa's own production of military and strategic goods. One of the reasons we find the Code of Conduct for Canadian companies in South Africa inadequate is that it gives no attention to the ways in which a company may assist South Africa's military and strategic needs.

The particular case which we have raised with the Canadian government many times is Varity Corporation, in which the Canadian government itself is a shareholder. Varity, through its Perkins subsidiary, has a licensee agreement with Atlantis Diesel Engines (ADE), which was established by the South African government to produce diesel engines for military and commercial purposes.

On other occasions, we have protested the involvement of Canadian companies or organizations along with South African participants in meetings where the subject matter was of strategic assistance to South Africa.

We recommend that the Government of Canada:

By legislation or other means, prevent Canadian companies and organizations from assisting the South African government with its military and strategic requirements through the provision of consulting services, know-how, technology transfers, licenses, or investments.

II. FINANCIAL SANCTIONS

1. Ban on new loans and policy on rescheduling of loans

Canadian banks, in response to public pressure and the government's 1985 and 1986 bans, have stopped making new loans to South Africa.

In addition, banks have been asked by the churches not to undertake normal rescheduling of outstanding loans, a policy also supported by the statement issued at the conclusion of the Commonwealth Foreign Ministers meeting in Lusaka in February. The intent is to make it possible for South Africa to make payments on its foreign debt, but difficult for it to maintain its other government expenditures - the high cost of maintaining apartheid, and particularly the rapidly escalating cost of its military/security forces.

External Affairs officials state that these policies have not been officially conveyed to Canadian subsidiaries of foreign banks. The reason given for this omission is that other restrictions on the activities of foreign banks in Canada make them unlikely to undertake new non-trade related loans. In our judgement, however, the ban on new lending activity and related policies regarding rescheduling should be officially extended to the subsidiaries of foreign banks. The parents of many of these subsidiaries continue to make new loans to South Africa, and they should be made aware of the position of the Canadian government.

We recommend that the Government of Canada:

Officially extend the ban on new lending activity and related policies regarding rescheduling to the subsidiaries of foreign banks.

2. Ban on trade credits

Recent research indicates that South Africa is turning to trade credits as a way of gaining financing in the absence of regular bank loans from a number of countries. (See Financing South Africa's Foreign Trade., by John E. Lind and David J. Koistinen, CANICCOR RESEARCH, San Francisco, March, 1988.) Trade credits are loans made to cover the period between the date on which the goods are exported to another country, and the date on which the person to whom they are exported pays for them. The Governor of the Reserve Bank of South Africa, Dr. Gerhard de Kock, spoke recently of the "gratifying" increase in trade-related, gold-related and suppliers' credits in recent months. (source: Anthony Robinson, "Credits Ease Constraints on Balance of Payments", Financial Times, July 6, 1988).

External Affairs officials suggest that a ban on trade credits might be a "back door" method to impose a complete trade embargo, and state that if Canada adopts a complete trade embargo, it will do so directly. They agree, however, that as financial sanctions are making their effect felt, there probably has been a shift within South Africa towards lengthier terms for the financing of trade, and that these developments are encouraged by the Reserve Bank of South Africa.

We note that the Commonwealth Committee of Foreign Ministers has authorized a study of financial sanctions.

We recommend that the Government of Canada:

Request that the Commonwealth consider steps to rule out South Africa's increasing use of trade credits as a substitute for the loans now denied by Commonwealth and other countries' financial policies.

III. ENFORCEMENT OF THE OIL EMBARGO

1. Voluntary ban on export of crude oil and petroleum products

Oil companies were advised of the Canadian government's position in September 1985. External Affairs officials state that the voluntary embargo on the export of crude oil from Canada is not being violated. Of concern, however, has been the possible violation of the related ban on the export of petroleum products. Statistics Canada figures in 1986 and 1987 show that the value of lubricants and greases exported increased in 1986 to $116,000, and in 1987 to $283,500.

External Affairs' information is that there is no internationally defined list of petrochemical products which are covered by the ban, and that these petrochemical products are more "chemical" than "petroleum". External Affairs has therefore asked Statistics Canada to consider whether the nature of the products would be reflected more accurately by reclassifying them as manufactured chemical end products. They would then be exempt from the ban on petroleum exports.

Our understanding of the purpose of the oil embargo seems to be at variance with that of External Affairs. The point is that South Africa should be cut off as completely as is possible from access to a resource of which it has much less than it requires, and which is strategic to its capacity to repress its population and attack its neighbours. Denying South Africa petroleum products as well as crude oil is essential to this strategy.

Our recommendation is that Canada should assist the Commonwealth and the U.N. to develop such a list, rather than simply reclassifying the products so that they are no longer affected by the ban.

We recommend that the Government of Canada:

Adopt a broad definition of petroleum products in its implementation of the oil embargo rather than reclassify products so that they are no longer affected by the ban; and also

Assist the Commonwealth and the United Nations to develop an international list of products banned for export under the oil embargo.

2. Increasing the effectiveness of the oil embargo

To be most effective, the oil embargo should include not only the export to South Africa of crude oil and petroleum products, but should also cover any activities which assist South Africa to develop its own petroleum and alternative energy resources. Such activities include, for example, the provision of finance, technology, equipment or personnel for the prospecting, development or production of hydrocarbon resources; and collaboration in the efforts of South African corporate interests to maintain or expand their holdings in oil companies or properties outside of South Africa.

There are several specific cases which provide examples of areas in which Canada should have increased the effectiveness of its implementation of the embargo. These include:

. the export of equipment (drill bits) providing South Africa with advanced technology for oil exploration;

. the export of equipment for development of alternative energy sources, e.g. hydrogen plants and parts;

. the provision by a Canadian consulting firm of technical assistance in the area of oil substitutes.

External Affairs officials state that effective action in some of these areas would require legislation which would run counter to the general government policy of deregulation and minimum government involvement in the energy sector. It is also suggested that practical enforcement would require control of investment and shipping beyond Canada's borders.

This response does not address our concern about the export of equipment which assists South Africa's energy needs - exports are clearly an area where practical enforcement is relatively easy. In the area of consulting services and technical assistance, the government might consider at the very least soliciting the voluntary cooperation of companies, as it did in its implementation of several other sanctions.

We recommend that the Government of Canada:

Expand its definition of the oil embargo to include measures such as banning the export of equipment for exploration and development, and preventing Canadian companies from providing consulting services and technical assistance which assist South Africa to increase its energy self-sufficiency.

IV. TRADE SANCTIONS

The churches, in August 1987 asked the government to extend the Canadian ban to include all goods imported from South Africa. We repeat that request once again.

We recommend that the Government of Canada:

Extend the existing import ban to include all remaining imports from South Africa.

1. Gold imports

Included in a complete embargo on imports would be a ban on all newly mined South African gold. The Canadian government was one of the first, in 1985, to impose a ban on the import of Krugerrands to Canada, and we recommend that this ban be extended to South African gold in other forms.

Because gold sanctions against South Africa are a critical part of an effective sanctions package, a number of anti-apartheid groups with whom we work have recently formed an organization, the World Gold Commission, with the goal of blocking all remaining sales of South African gold without depressing the international market price of gold.

The World Gold Commission suggests a strategy of a ban on gold imports coupled with measures which will result in minimum costs to the rest of the world. Realizing that the loss of supply to the market could result in price increases or in smuggling from South Africa they advocate two compensating measures. These are to release supplies gradually from reserves and to reduce consumer demand. This second option can be achieved by such means as campaigning against sales of bullion or jewelry that contains South African gold. In the United States for example, South African gold is imported primarily in the form of Italian gold jewelry.

We recommend that the Government of Canada:

Examine options for extending the ban on gold imports to include all newly mined South African gold, which would also include steps to prevent compensatory price increases.

The World Gold Commission is also campaigning to end participation by non South African gold mining companies in the World Gold Council, a South African dominated gold marketing organization.

When the World Gold Council was formed in March 1987 it took over the functions of the International Gold Corporation, Intergold, a South African industry-owned organization which promoted the products of South African gold mines. The link between Intergold and the World

Gold Council was established for us in the Fall of 1986 when a call to the Gold Information Centre in Toronto was referred first to Intergold in New York and then to the World Gold Council, then being formed. (The Gold Information Centre shares premises with the Canadian Jewelers Association, the Jewelers Institute, and the Gemological Association. This appears to bear out the close relationship between the World Gold Council and the promotion of the sale of jewelry.)

Membership in the Council was secret until the World Gold Commission obtained leaked documents. The financing and control of the Council is proportional to production, so that South African companies have a very strong voice in directing its activities.

The membership list leads one to conclude that the majority of the world's gold mining interests have decided against joining a South African dominated group. Only 39 of 269 companies from 6 of 57 western countries are members.

Four of the six countries represented are members of the Commonwealth, and Canadian companies form a significant proportion of the membership. These are: American Barrick Resources Corp., Hudson Bay Mining & Smelting Ltd. (controlled by South African mining interests), International Corona Resources Ltd., Kerr Addison Mines Ltd., Noranda Minerals Inc., and Placer Dome Inc.

Noranda and Placer Dome are represented on the Board of Directors.

We are disturbed that these Canadian companies are members of the Council. In our view, such membership is in direct conflict with the aim of denying South Africa a market for its gold.

We recommend that the Government of Canada:

Request that Canadian companies not participate with South African companies in the World Gold Council.

2. <u>Marketing Organizations</u>

A similar promotional organization was formed in November 1985 by fifteen coal producing companies. Called the International Coal Development Institute, its headquarters are in Britain. One of the founding companies is Westar Mining of British Columbia. Three large South African companies - Apex Mines, Douglas Colliery, and Trans-Natal Coal - were also founding members. Since the founding of this organization took place at the same time that many Western countries were debating the banning of South African coal, we can only conclude that its stated goal of promoting the use of coal did not exclude assisting South Africa to find markets.

Again, we find the participation of a Canadian company in such an organization runs counter to the Canadian government's support for the August 1986 Commonwealth policy banning South African coal imports. We wrote to Westar stating our position; we received no reply.

We found the response of the Secretary of State for External Affairs to our October 1986 inquiry about this issue unsatisfactory. The letter stated that Canadian producers are in competition with South Africa, and therefore have no interest in assisting South African producers to circumvent sanctions. It did not address our concern that marketing cooperation that benefits South African producers runs counter to the intent, if not the letter, of the coal sanction.

We recommend that the Government of Canada:

Take steps to discourage Canadian companies from participating in industry organizations which have South African membership (such as the International Coal Development Institute) where such participation could undermine the effective international implementation of sanctions agreed to by Canada.

3. Sulphur exports

Canadian sulphur is used in South Africa for the production of fertilizer for export, and provides South Africa with a significant source of foreign exchange. The Front Line States are largely dependent on South Africa for fertilizer. A proposal has been developed by an Alberta group, the Committee Against Racism, to end Canadian sulphur exports to South Africa, and to assist the Front Line States to reduce their dependency on South African fertilizer. This would require substantial assistance from CIDA.

External Affairs officials point out that there is presently a surplus of sulphur on the world market, and that South Africa could easily replace our supplies from other sources, and that in fact they may already be diversifying their sources. They also note that Canadian assistance to the Front Line States reflects those countries' priorities, and that the Front Line States have not requested assistance to reduce their dependency on South African fertilizer.

There is no indication given that Canada has initiated discussion of this proposal with the Front Line States and with other sulphur-exporting countries.

We recommend that the Government of Canada:

Initiate discussions with the Front Line States and with other sulphur producing countries of a proposal to ban the export of sulphur to South Africa, and to assist the Front Line States to reduce their dependency on South African fertilizer.

4. Promotion of Canadian trade with Southern Africa and South Africa

The Canadian Exporters Association, with the support of CIDA, has established the Canadian Association for the Private Sector in Southern Africa (CAPSSA). We reiterate our concern that CAPSSA not become an indirect way to provide government support for trade with South Africa, particularly as the Canadian Exporters Association opposes sanctions against South Africa. We realize that non-strategic exports to South Africa are not yet banned, yet we understood from the termination of the Program for Export Market Development and other forms of government trade assistance that trade with South Africa would not receive any government support or promotion.

The literature explaining CAPSSA refers to its mandate as the promotion of Canadian private sector involvement with the private sector of the Southern African region. While we understand that CAPSSA's focus is to be on member countries of the Southern Africa Development Cooperation Conference, the literature does not specifically exclude promotion of trade with South Africa. We recommend clarification of the mandate of CAPSSA, with continuing CIDA support conditional on excluding direct or indirect promotion of trade with South Africa.

We have related concerns about the recent establishment of the Canadian Association for Black Business in South Africa. Again, this is a project of the Canadian Exporters Association, with support from CIDA. The goal is the development of suppliers and subcontractors of goods and services among the black entrepreneurs for the Canadian firms and Canadian-linked firms still in South Africa.

The chief argument advanced in its favour is the one often advanced by multinational corporations who wish to stay in South Africa - the importance of training black leadership. We support the provision of assistance to black education and leadership development, but we are concerned that this laudable goal not be used to justify Canadian trade and investment which may directly or indirectly support apartheid structures.

We recommend that the Government of Canada:

Clarify the mandate of the Canadian Association for the Private Sector in Southern Africa, with continuing CIDA support conditional on excluding direct or indirect promotion of trade with South Africa.

5. Inter-governmental co-operation in the implementation of trade bans

The Commonwealth Foreign Ministers Committee is a good example of intergovernmental cooperation, and we strongly support the leadership shown by Canada in that forum. We are also interested, however in Canada's readiness to cooperate with other countries in the implementation of their trade bans.

Some countries - specifically the Nordic countries - have much more comprehensive bans on trade with South Africa than does Canada. This means that a transaction which is illegal in Sweden can be legally carried out via Canada by a Canadian subsidiary of a Swedish firm.

If the legislation presently before the U.S. Congress is adopted, the Americans too will have more comprehensive bans, and this issue will become more pressing.

If Canada does not also adopt further sanctions, what will be its attitude toward American companies wishing to trade or invest in South Africa who try to use their Canadian subsidiaries in order to evade U.S. sanctions?

Even now, for example, companies have been able to evade the American ban on imports of South African and Namibian uranium. Because a "certificate of origin" is not required for Namibian uranium processed in Canada by Eldorado Nuclear, American companies can import it as a Canadian product.

We urge the Canadian government, in the absence of more comprehensive sanctions, to take all possible steps to prevent Canada being used as an alternate route for foreign companies to continue trade and investment with South Africa in defiance of their governments' bans. At the very least, Canada should monitor its trade and investment in the light of sanctions adopted by other countries and provide information to those countries about possible violations committed by their companies via Canada.

We recommend that the Government of Canada:

Seek, through the Commonwealth and bilaterally, to prevent the breaking of its own sanctions and the sanctions of other countries, through the adoption of such measures as certificates of origin; and at the very least,

Agree to monitor its trade and investment patterns in relation to the sanctions adopted by other countries, and provide them with information about possible evasions.

V. VOLUNTARY BAN ON NEW INVESTMENT IN SOUTH AFRICA

Four cases have come to our attention of possible violation of the ban on new investments or reinvestment of profits. One involved a violation by Falconbridge Ltd., which has since disinvested.

The second involved the expansion of investment by QIT - Fer et Titane Inc., and the question of whether the expansion took place after the announcement of the ban in August 1986. We understand that an investigation of this case was carried out by External Affairs officials, and would appreciate hearing its outcome.

The third involves Menora Resources Inc., whose operations in South Africa were suspended in 1986. According to the recent report of the Administrator for the Canadian Code of Conduct, it resumed operations on a smaller scale in 1988. While this may not technically constitute a new investment, it certainly appears to violate the intention of the sanction.

The fourth case involves the terms of the disinvestment by Ford Canada from South Africa. In 1987, it was reported that Ford agreed to transfer $61 million (U.S.) to Samcor as one of the terms of the disinvestment. We sought clarification from External Affairs as to whether this constituted a violation of the Canadian policy on new investments and we were surprised to learn that it has never dealt directly with Ford Canada or Ford U.S. concerning this transaction. Instead, it relies for any information it has on U.S. government sources, on the premise that decisions about Ford Canada are really made there; and on the Administrator for the Canadian Code of Conduct, who is not responsible for monitoring this aspect of Canadian government policy.

Since our initial request for a Canadian government investigation of this transfer of funds, we have learned from Ford Canada that the $61 million was funded jointly by Ford of Canada and Ford U.S. Ford's 1987 year end report showed an extraordinary charge of $40 million (Cdn) which was the total cost to Ford of Canada to "restructure its involvement" in South Africa. This amount included $26 million of previously deferred foreign exchange losses; and $14 million for educational and community development trusts for black South Africans, and a capital contribution to Samcor.

The portion of the $14 million which went towards the capital contribution to Samcor is not revealed, but it appears to us that an investigation should be undertaken by the Canadian government.

We recommend that the Government of Canada:

Reassess its voluntary approach to investment (or reinvestment) in South Africa in the light of four possible violations of its policy, and consider legislating a ban on new investment and the reinvestment of profits.

VI. DISINVESTMENT

1. Legislation

The churches continue to request the legislated disinvestment from South Africa of companies providing strategic support to the regime.

We recommend that the Government of Canada:

Legislate the disinvestment from South Africa of companies providing strategic support to the regime.

2. Taxation of Canadian Companies in South Africa and Namibia

The government first addressed the issue of credits against taxes paid in South Africa with the July 1985 announcement of the termination of the Double Taxation Agreement between South Africa and Canada. However, subsequent analysis showed that annulling the treaty would have no real effect on Canadian companies operating in South Africa. Under the Income Tax Act they could continue to claim a credit for the taxes paid in South Africa when calculating their Canadian taxes.

Since 1981 Canadian churches in 1981 have been requesting that the Canadian government discontinue tax credits for taxes paid in Namibia to the illegal South African regime. None of the replies which we have received have dealt with the question in a satisfactory manner.

The most recent written reply, in April 1987, stated that because the Canadian government considers the South African occupation of Namibia as illegal, it "therefore has no agreements with it on the avoidance of double taxation or any other matter." We do not understand how a lack of a double taxation agreement could be seen as a barrier to denying Canadian companies tax credits for taxes paid to the illegal regime. The issue remains, as it was in 1985, Canada's willingness to amend the provisions of the Income Tax Act.

However, in a very significant move, the American tax law was changed effective January 1, 1988 to abolish the ability of U.S. taxpayers (corporations and individuals) to write off taxes paid in South Africa and Namibia against U.S. taxes.

While only a small number of Canadian corporations continue to operate in South Africa and Namibia, the change in U.S. law makes a change in Canadian law a continuing priority for action. Otherwise, Canadian law may provide a means for U.S. corporations to evade the U.S. law.

While we understand that Canadian tax law differs from U.S. tax law, making it easier for Canadian corporations to evade the impact of the removal of tax credits, we assume that enacting effective legislation would not be impossible, given political will to do so.

We recommend that the Government of Canada:

Amend the Canadian Income Tax Act, and if necessary enact other legislation, to the effect that Canadian individuals and companies will not receive tax credits for taxes paid or accrued to South Africa or Namibia.

VII. TOURISM AND PROPAGANDA

Advertisements for tours to South Africa continue to appear, in violation of the voluntary ban, and service groups and others are enticed to take tours to South Africa, while at the same time Canadian critics of the South African government are denied permission to enter South Africa. The sophisticated and well financed campaign of South African government and Embassy propaganda continues, while independent media coverage of events in South Africa is severely limited and censored.

We have provided External Affairs officials with a copy of South African government literature designed to discredit the South African Council of Churches and the World Young Men's and Women's Christian Associations. Both pieces of literature were widely distributed in Canada.

We recommend that the Government of Canada:

Support the Commonwealth Foreign Ministers Committee in taking the strongest possible action to counteract the South African government's propaganda campaign.

VIII. LESOTHO HIGHLAND WATER PROJECT

The World Bank and other national aid agencies (excluding CIDA) are providing loans for this project which is a joint undertaking by Lesotho and South Africa.

The project will divert water from the Lesotho Highlands to major urban areas of South Africa, while providing Lesotho with cheap electrical power. It is estimated that less than 14% of the $1.5 billion the project is expected to cost will be spent on Lesotho, which is too small and undeveloped to absorb it.

Lesotho, given its geographical situation and its extreme economic and political dependency on South Africa, is a "homeland" in all but name. We support CIDA's policy of small scale projects each of which directly benefits only a small local district. The Highland Water Project, in contrast, is clearly designed to benefit South Africa, and is unofficially co-sponsored by South Africa.

External Affairs has suggested that CIDA is not participating in the project because it supports only small-scale projects in Lesotho. We have reason to believe that CIDA also shares our fundamental concerns about the relationship of the project to the South African economy.

Our concern is that the Department of External Affairs is providing "normal levels of service" to Canadian companies bidding on the project. We question the grounds on which Canadian government assistance is being provided for participation in a project which we believe is clearly de-

signed to serve South Africa's interests. On the contrary, this project should be denied government assistance under the policy which denies support to trade initiatives or investment in South Africa.

We recommend that the Government of Canada:

Refuse the provision of "normal levels of service" to assist Canadian companies to participate in the Lesotho Highland Water Project, on the grounds that it is a project unofficially co-sponsored by the South African government and designed primarily to serve South Africa's interests.

IX. NAMIBIA

1. Canadian participation in the Contact Group of Nations

We support the Canadian government's action in publicly rejecting the principle that the withdrawal of South African troops from Namibia should be linked to the withdrawal of Cuban troops from Angola. However, we believe that the time has long since passed for Canada to admit that the Contact Group cannot contribute to a settlement which includes an independent peaceful Namibia. The members of the Contact Group are all countries with business interests in Namibia, and it is hard not to believe that they may have a vested interest in putting off the day when Namibia is an independent country.

Given Canada's strong stand in opposing the role of south Africa in the region, we find it very inconsistent that it should be willing to continue as a member of the Contact Group which is doing so little to achieve Namibian independence. The issue of the implementation of Resolution 435 for the Independence of Namibia should be referred back to the United Nations.

External Affairs officials state that Canada maintains its membership in the Contact Group because it wants a place at the table when the final resolution takes place, and because it believes the Front-Line States wish it to remain. We would appreciate receiving copies of statements by leaders of Front-Line States which urge Canada to remain in the Contact Group.

We recommend that the Government of Canada:

Withdraw from the Contact Group of nations and return the issue of implementation of UN Resolution 435 for the independence of Namibia to the United Nations.

2. Implementation of Decree No. 1 of the United Nations Council for Namibia

We also urge that Canada support the implementation of Decree No. 1 of the United Nations Council for Namibia which prohibits the exploitation of Namibian resources as long as Namibia remains illegally occupied by the South African government.

In this connection, we support legislation to force Rio Algom Ltd. to disinvest its 10% interest in Rossing Uranium Ltd. Through its investment, Rio Algom is participating in the extraction of Namibia's depletable resources.

A church-sponsored shareholder resolution to Rio Algom in April 1988 requested its Board of Directors to report to shareholders on the ethical and legal implications of remaining in Namibia. The fact that 47% of the independent shareholders (i.e. excluding the vote of the parent company, RTZ) voted in favour of the shareholder proposal indicates considerable concern among Canadians about the issue.

We recommend that the Government of Canada:

Support the implementation of Decree No. 1 of the United Nations Council for Namibia, which prohibits the exploitation of Namibian resources as long as Namibia remains illegally occupied by the South African government.

Legislate the disinvestment from Namibia of any Canadian corporations, including Rio Algom Ltd., involved in the exploitation of Namibian resources.

3. Contracts for processing of Namibian uranium by Eldorado Nuclear

We also request an immediate end to the processing by Eldorado Nuclear of Namibian uranium. In July 1985 the Canadian government announced that when existing contracts ended in 1988, there would be an end to the processing of Namibian uranium in Canada. We welcomed that announcement as an important recognition of the immorality, if not the illegality, of Canadian participation in exploiting Namibia's resources, although we would have preferred that contracts be broken at that time.

Officials of the Department of External Affairs have now informed us that the duration of the contract may continue beyond the end of 1988, and they attempted to discount the importance of this information by pointing out that the size of the contract is not affected.

Continuing to fulfill the contract is not only wrong in principle, but extending the duration of the contract will continue to make it possible for the corporations involved, Rio Tinto Zinc, Rio Algom, et al., to evade the attempts of other countries and non-governmental organizations to end the trade in Namibian uranium.

We have referred above (Section IV, No. 5, page 11) to a loophole which undercuts the U.S. ban on import of Namibian and South African uranium by treating Namibian uranium that is first processed in Canada as Canadian. A second example involves the recent report of a "paper swap" of Namibian and Canadian uranium concentrates by Comurhex (the French uranium processor) and RTZ (Rio Algom's parent company) so that Namibian uranium was imported to the United Kingdom under the Canadian label. The swap was intended to bypass a British trade union blockade of Namibian uranium.

A third example, which we have previously raised with the Canadian government is that the Japanese utilities and the Japanese government deny knowledge of their contracts for Namibian uranium because it is considered "Canadian" by virtue of its being processed in Canada.

We recommend that the Government of Canada:

Refuse to permit the extension of the contract for the processing of Namibian uranium by Eldorado Nuclear beyond the original completion date of 1988.